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SUBJECT: GEORGIA BI-WEEKLY UPDATE SEPTEMBER 7

REF: TBILISI 2169

¶1. This cable contains current items of political, economic, and social interest concerning Georgia during the weeks of August 18-September 7.

#### Government Adopts New Agenda

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¶2. Parliament is expected to adopt the government's new plan action, entitled For a United and Strong Georgia, in its first plenary meeting of the fall session September 7. The document focuses on steps to promote more jobs in the private sector, transparent and efficient government, an effective judiciary and law enforcement, adequate defense capability, energy security, and other goals. The opposition has strongly criticized the program as a "wish list" and a collection of "toasts," rather than a concrete plan. President Saakashvili rejected the criticism, and in explaining the main directions of the program at a government meeting September 5, he pointedly gave concrete tasks to almost every minister, stressing their collective and individual responsibility for the success of the program.

#### Controversy Surrounds Refugees Minister

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¶3. Following the government reshuffle announced August 29 (reftel), media speculation has swirled on the possible dismissal of another minister, Gia Kheviashvili, Minister for Refugees and Accommodation. According to allegations leaked to the press, Kheviashvili and MP Beso Jugeli were involved in a corrupt deal with Minister of Health, Labor and Social Security Lado Chipashvili, in which both Kheviashvili and Jugeli improperly received government funding for expensive medical treatment abroad. Chipashvili and Kheviashvili denied the allegations, although in the Cabinet reshuffle Chipashvili lost his ministerial position (and was nominated for the position of Ambassador to the Czech Republic). While Kheviashvili remains at his post, some publications are now reporting new allegations that he was involved in illegal transfers of Ministry funds. According to these reports, Minister of Finance Lexo Alexishvili personally confronted him about these transactions.

#### Georgia Upgrading Radar Systems

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¶4. Tests are underway on a new modern radar system, to be installed in Poti, that will oversee an area with a radius of 450 kilometers and also be able to track objects flying over parts of Russia and Azerbaijan. Several employees of the Georgian Air Traffic Control authority have undergone special training in Paris to learn how to operate the French-made radar system. In parallel to that, the media is reporting that Georgia will join the NATO radar network in several months. The Georgian radar system will transmit data to a NATO database in a real-time regime. According to Georgian officials, the political decision to this effect has been reached and talks on implementation are currently underway.

#### Georgia Amends Budget Due to High Revenues

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¶5. Prime Minister Noghaidei has announced an increase in Georgia's budget expenditure by GEL 450 million (USD 272 million), crediting

strong economic growth and investments into the country. The additional expenditures will be made in five areas: defense reform, financing investment measures, promoting agriculture, and expanding the budgets of the Interior Ministry and Justice Ministry. The Defense Ministry will receive the largest share - GEL 320 million - of the increase, in connection with Georgia's drive to integrate into NATO. This brings the defense budget up to GEL 1.3 billion, out of total state budget of GEL 4.7 billion, or 7.8% of country's GDP. The parliament is expected to adopt the changes in its fall session.

#### Local Officials Arrested for Corruption

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¶6. In the last two weeks there have been new examples of the government's anti-corruption campaign, which President Saakashvili has pledged will continue even if the wrongdoers are high officials well-connected to the ruling party. Law enforcement officials detained the head of the local government of Telavi, in eastern Georgia, on a charge of extortion of USD 75,000 from a businessman to guarantee his success in an auction. If found guilty, the official could face 15 years in prison. Another high profile detention was a former mayor of Poti, a port city on the Black Sea coast, who was arrested on corruption charges, including embezzlement of money allocated for port reconstruction.

#### British Investor to Manage Georgian Railway

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¶7. The Georgian government has announced it will transfer management rights for Georgian Railways to the British company Parkfield Investments for an 99-year period. As explained by Minister of Economic Development Giorgi Arveladze, the railroad will remain state property, and the British company will invest USD 1 billion over 10 years, with most of the money being spent in the first 3-4 years. Critics of the deal have stressed the strategic importance of the railroad and demanded more information on the new owner. The

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company reportedly does not have railroad management experience, and intends to delegate management responsibility to a separate company. Existing passenger and cargo tariffs will be maintained until 2009, Arveladze said, and for five subsequent years tariffs will be determined jointly by the state and the company.

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